

THE BOND BUYER

THE DAILY NEWSPAPER OF PUBLIC FINANCE

Calif. High-Speed Rail Seeks a P3

Authority Officials Send Out Call to Private Sector

Bond Buyer | Friday, March 14, 2008

By [Rich Saskal](#)

SAN FRANCISCO - The California High-Speed Rail Authority is looking for partners to supply the private part of a public-private partnership to build the passenger rail system the agency is charged with developing.

The authority last week issued a "request for expressions of interest in private participation" in its plan to create a high-speed rail service, in the vein of Japanese and French bullet trains, to link Southern California with the San Francisco Bay area and Sacramento.

"We have come to the conclusion it will ultimately have to be financed with multiple sources," said Carrie Pourvahidi, deputy director of the rail authority.

One of the sources would be the proceeds of a \$9.95 billion general obligation bond measure that California voters are scheduled to vote on in November.

Despite its far-reaching aims, the authority has led something of a Perils of Pauline existence as it has confronted economic and political headwinds.

The high-speed rail bond measure was originally scheduled for the ballot in 2004, but lawmakers twice voted to postpone it, first to 2006, and then to 2008.

Though he has stated support for high-speed rail as a concept, Gov. Arnold Schwarzenegger has never wholeheartedly embraced it.

His budget proposal last year would have effectively shut the rail authority, but lawmakers in the end found about \$20 million to keep it running, largely by tapping the remaining authorization from a 1990 passenger train bond measure.

The authority's efforts to seek private-sector participation, however, appear to dovetail with the Schwarzenegger administration's goal of increasing the use of P3s in California.

"The administration has said that we'd like to see a full financing plan that has defined amounts on what contributions have to be made by the state, the federal government, and by non-governmental entities," said Schwarzenegger spokesman H.D. Palmer. "To the extent this furthers the cause, it's all to the better."

The P3 effort could also address another problem - if voters authorize \$10 billion of bonds this year, it would buy less railroad than it would have four years ago.

From December 2003 to January 2008 the producer price index for inputs to construction industries rose a cumulative 30.2% compared to 14.5% for the overall consumer price index, according to a publication released this month by the Associated General Contractors of America.

The new request is a first step, Pourvahidi said.

"It's kind of a fact-finding for both sides, for us as well as for the private sector," she said.

Lehman Brothers and Infrastructure Management Group are financial advisers to the authority.

The current process requests nonbinding requests from potential private investors, according to Sasha Page, vice president for finance at Infrastructure Management Group.

"The expectation is we'll be getting feedback from the industry," Page said. "Should the [authority] board decide to go ahead, there will be a formal request for proposals process."

Whatever transpires with private partnerships, the \$9.95 billion bond measure remains important, Pourvahidi said.

"That's really key, to have the bond pass," she said. "The state needs to take some of the risks out of it in the front end."

Federal funding is also critical to making the project a reality, Page said, though such a program remains a work in progress in Washington.

"We're looking at something like a high-speed rail new-starts program," he said. Other proposals would extend the federal government's existing innovative transportation finance proposals, and the use of private-activity bonds.

The rail authority's vision calls for trains to cover the 380 miles between Los Angeles and San Francisco in two hours and 35 minutes.

If that goal is achieved, the authority's business plan projects that annual ridership would exceed 60 million by 2030 if the system were built out in full with extensions to Sacramento and San Diego.

By comparison, today's nationwide Amtrak system serves about 25 million riders annually. The busiest portion of the Amtrak system, between Washington, D.C., and Boston, serves about 10 million riders.

Similar high-speed rail systems already exist in Europe and Asia, and experience there has shown that they can typically generate more than enough revenue to cover their ongoing operating costs, Page said, in contrast with the typical commuter rail or transit operation.

That gives potential private partners something to work with when they make partnership proposals, which could be expected to contain elements such as debt, equity financing, revenue bonds, and design-build-operate-maintain contracts.

California lawmakers have introduced a bill to modify the language of this year's slated high-speed rail bond measure. Unlike the previous legislative efforts that twice delayed the bond measure, this year's bill, as introduced, would affirm the November election date and modify some of the language, specifying that bond funds can be used to finance any part of the planned system, and using the description of the program that is contained in the certified programmatic environmental impact report of 2005 as the template for the project, instead of an earlier business plan.

The programmatic environmental statement covers the project from a "bird's-eye view," Pourvahidi said, including the selection of the project route.

Project-level environmental studies - at "ground level" - must be conducted before tracks can be laid, Pourvahidi said. She added that the first such study, covering an area from Orange County to Burbank, is underway.